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Oversight Review

January 27, 2012

Quality Control Review of Army Audit Agency's
Special Access Program Audits

Report No. DODIG-2012-045

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Acronyms and Abbreviations

AAA	Army Audit Agency
SAP	Special Access Programs
GAGAS	Generally Accepted Government Auditing Standards



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JAN 27 2012

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Quality Control Review of Army Audit Agency's Special Access Program Audits (Report No. DODIG-2012-045)

We are providing this report for your information and use. We reviewed the Army Audit Agency's (AAA) system of quality control over Special Access Programs (SAP) audits for the two years ended September 30, 2010. The generally accepted government auditing standards (GAGAS) require that an audit organization performing audits and/or attestation engagements in accordance with GAGAS should have an appropriate internal quality control system in place and undergo an external peer review at least once every three years by reviewers independent of the audit organization being reviewed. As the organization that has audit policy and oversight responsibilities for audits in the DOD, we conducted the external quality control review of the AAA SAP audits in conjunction with the Naval Audit Service's review of the AAA non-SAP audits.

An audit organization's quality control policies and procedures should be appropriately comprehensive and suitably designed to provide reasonable assurance of meeting the objectives of quality control. We tested the AAA SAP system of quality control for audits to the extent considered appropriate.

Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. In our opinion, the system of quality control for the audit function of AAA SAP in effect for the period ended September 30, 2010, was designed in accordance with quality standards established by GAGAS. Further, the internal quality control system was operating effectively to provide reasonable assurance that SAP audit personnel were following established policies, procedures, and applicable auditing standards. Accordingly, we are issuing a pass opinion on your SAP audit quality control system for the review period ended September 30, 2010.

Appendix A contains comments, observations and recommendations where AAA can improve its quality control system. Appendix B contains the scope and methodology of the review. We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Carolyn R. Davis at (703) 604-8877 (DSN 664-8877) or carolyn.davis@dodig.mil.

Randolph R. Stone, SES
Deputy Inspector General
Policy and Oversight

Appendix A. Comments, Observations, and Recommendations

We are issuing a pass opinion because we determined that the Army Audit Agency's (AAA) quality control system is adequately designed and functioning as prescribed. The concerns we identified during our review of the selected AAA audit reports were not cumulatively significant enough to indicate that material deficiencies existed in the AAA quality control system for complying with generally accepted government auditing standards (GAGAS).

We identified areas of concern relating to independence, planning, audit documentation, and quality control. We judgmentally tested the reports for compliance with GAGAS and AAA audit policies in nine areas to include independence, professional judgment, competence, audit planning, supervision, evidence, audit documentation, reporting and quality control.

Independence

We found that the program director did not sign the independence statement for the audit manager which was documented in the audit working paper files for one of the two audits reviewed.

GAGAS 3.02 (2007 Revision) states that in all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be free from personal, external, and organizational impairments to independence, and must avoid the appearance of such impairments of independence.

USAAA Regulation No. 36-3, Audit Survey and Execution, dated October 17, 2003, Chapter 2, Section 4, Independence states that to comply with the independence standard, the Auditor-in-Charge must determine and document whether any audit team members have any personal impairments to independence based on the audited activity or subject matter of the audit. Auditors are responsible for notifying audit management if they have a personal impairment to independence. This must be completed before starting any audit work.

While the audit documentation did not include a signed independence statement for the audit manager, the independence statements for all other auditors assigned to the audit, including the program director and auditor-in-charge, were also part of the audit documentation. The audit manager stated that it was an oversight that the independence statement was not documented in the audit files.

Recommendation

We recommend that the AAA Program Director for Intelligence and Security audits remind auditors to follow AAA guidance for preparing, reviewing and documenting auditor independence for all auditors assigned to the audit to include audit managers.

Management Comments

The Army Audit Agency's Deputy Auditor General concurred with the recommendation and stated that on December 7, 2011, the program director sent an e-mail to all special access program personnel discussing the results of the quality control review and re-emphasized the requirements of USAAA Regulation No. 36-3 (Audit Survey and Execution) relating to the need for auditors, specialists and independent reviewers to review and sign independence statements upon assignment to an engagement.

Reviewer Response

Management comments are responsive. The program director's December 7, 2011 e-mail requires that the auditors follow USAAA Regulation No. 36-2 by including independence statements in the working papers and having the appropriate supervisor sign the independence statements.

Planning

We found that for one of the two audits reviewed, the auditors did not prepare audit working papers or memorandums for record to document meetings with AAA management regarding progress and results of audited areas.

GAGAS 7.12e (2007 Revision) states that auditors should communicate about planning and performance of the audit to management officials, those charged with governance, and others as applicable.

USAAA Regulation No. 36-2, Planning the Audit, dated February 24, 2009, Section 8-1, Purpose of Planning Decision Gate states that decision gates allow for program directors, audit managers, and Auditors-in-Charge to plan and conduct engagements and to reach agreements on how engagement results will be presented in the report. The intent of the decision gates is to ensure all engagements are managed more effectively and feedback is provided to the customer in a timely manner. Typical Agency audits and attestation engagements require four decision gates: planning, 30 percent in-process review, 60 percent review, and message agreement. The primary purpose of the planning decision gate meeting is to ensure that the auditors are in agreement on the focus of the engagement and that the auditors have the capability to perform the engagement as planned.

USAAA Regulation No. 36-2, Planning the Audit, dated February 24, 2009, Section 8-4, Documenting the Planning Meeting states that the Auditor-in-Charge is responsible for ensuring the planning meeting, and any decisions made therein, is documented.

Since the audit documentation did not contain a working paper or memorandum of the meetings between the Army auditors and AAA audit management regarding the progress of the audit, we could not determine whether audit management either approved the progress of the audit plan that the auditors presented or discussed other audit approaches.

Recommendation

We recommend that the AAA Program Director for Intelligence and Security audits remind auditors to include documentation of meetings with AAA audit management

regarding any audit planning decisions made to comply with USAAA Regulation No. 36-2.

Management Comments

The Army Audit Agency's Deputy Auditor General concurred with our recommendation and stated that on December 7, 2011, the program director sent an e-mail to all special access program personnel discussing the results of the quality control review and re-emphasized the requirements of USAAA Regulation No. 36-2 (Planning the Audit) related to the need for teams to document in working papers the decisions made at planning decision meetings.

Reviewer Response

Management comments are responsive. The program director's December 7, 2011 e-mail requires that the planning decision gate meetings be documented using a working paper or memorandum for the record. The e-mail also states that the working paper or memorandum for the record should include those who attended the meeting and the decisions made at the meeting to comply with USAAA Regulation No. 36-2.

Audit Documentation

We found that for one of the two audits reviewed, auditors did not prepare working papers or memorandums for record to document in-process reviews with audit management and Army command.

GAGAS 7.77 (2007 Revision) states that auditors should prepare audit documentation related to planning, conducting, and reporting for each audit. Auditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source, and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions.

USAAA Regulation No. 36-3, Audit Survey and Execution, dated October 17, 2003, Chapter 4, Section 4, In-Process Review states that the audit team will hold an in-process review (audit update briefing) with command personnel 45 to 60 days after the entrance conference. The purpose of the in-process review is for the audit team to assess audit progress and provide command an update on the audit status and the plan for audit execution. This briefing also provides command with an opportunity to provide input on the survey results and execution phase.

USAAA Regulation No. 36-3, Audit Survey and Execution, dated October 17, 2003, Chapter 4, Section 5, Documenting the In-Process Review states that the Auditor-in-Charge or designated team member should document the results and decisions made at the in-process review in a memorandum for the record. This memorandum should include:

- Date, time, and location of the meeting.

- List of attendees and contact information (phone number, office location, e-mail address).
- Summary of meeting results including command comments and concerns.
- Agreements made between the audit team and command.
- A copy of the charts used to provide the briefing (as an attachment).

The auditors should file the in-process review memorandum in the Correspondence and Conference Notes section of the working paper file.

We identified audit files that contained briefing charts discussed with audit management and Army command, but the audit files did not contain a memorandum for record. Therefore, we could not determine who attended the meetings and if audit management or Army command had any comments or concerns relating to the briefings.

Recommendation

We recommend that the AAA Program Director for Intelligence and Security audits remind auditors to document results and decisions made at in-process reviews in an audit working paper or memorandum to comply with USAAA Regulation No. 36-3.

Management Comments

The Army Audit Agency's Deputy Auditor General concurred with our recommendation and stated that on December 7, 2011, the program director sent an e-mail to all special access program personnel discussing the results of the quality control review and re-emphasized the requirements of USAAA Regulation No. 36-3 (Audit Survey and Execution) related to the need for teams to document the decisions made during in-process reviews.

Reviewer Response

Management comments are responsive. The program director's e-mail dated December 7, 2011, requires that auditors document the internal in-process reviews and command in-process reviews using a working paper or memorandum for the record.

Quality Control

We found that for one of the two audits reviewed, the working papers did not include a completed quality control checklist.

GAGAS 3.50a (2007 Revision) states that each audit organization performing audits or attestation engagements in accordance with GAGAS must establish a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements.

USAAA Regulation 36-62, Quality Assurance Program, dated April 16, 2008, Section 2-3, Quality Control Checklist states the following:

- a. The auditor-in-charge and audit manager will complete the appropriate quality control checklist to document compliance with GAGAS throughout the audit.
- b. The quality control checklists provide a roadmap for the audit; they include separate sections on the planning, survey, and execution; report writing; and report reply process phases.
- c. Auditors-in-charge are required to answer each element of the checklist with a “yes,” “no,” or “not applicable;” initial that each quality control step was completed; provide relevant working paper citations for positive responses; and explain negative answers or steps marked as not applicable.
- d. Before the final report is issued, both the audit manager and the program director will sign the final page of the quality control checklist. The audit manager’s signature validates that the audit complied with GAGAS and Agency policies. The program director’s signature indicates that nothing came to their attention that the audit wasn’t conducted in accordance with GAGAS and Agency policies.
- e. The completed checklist and signatures will be documented in the working paper files.

The audit working paper files did not include a completed quality control checklist. Specifically, the checklist areas relating to reporting and the command reply process were not completed. The auditors did not answer the checklist sections of the reporting and the reply process with a “yes,” “no,” or “not applicable.” AAA issued the final report without completing all of the sections of the checklist. The auditors indicated that it was an oversight that the checklist was not been completed.

Recommendation

We recommend that the AAA Program Director for Security and Intelligence follow the AAA quality assurance program and ensure that all sections of the quality control checklist are completed and a copy of the checklist is maintained in the audit files.

Management Comments

The Army Audit Agency’s Deputy Auditor General concurred with our recommendation and stated that on December 7, 2011, the program director sent an e-mail to all special access program personnel discussing the results of the quality control review and re-emphasized the requirements of USAAA Regulation No. 36-62 (Quality Assurance Program) related to the need for teams to complete all sections of the quality control checklist and to include a copy of the checklist in the working papers.

Reviewer Response

Management comments are responsive. The program director’s e-mail dated December 7, 2011, reminded the special access program personnel to complete all sections of the quality control checklist and to include a copy of the checklist in the working papers.

Appendix B. Scope and Methodology

We limited our review to the adequacy of AAA SAP audits' compliance with quality policies, procedures, and standards. We judgmentally selected two SAP audits from a universe of four SAP audit reports issued by AAA SAP auditors during FY 2009 and FY 2010. We tested each audit for compliance with the AAA system of quality control. The Naval Audit Service conducted a review of the AAA internal quality control system for non-SAP audits and/or attestation engagements, and will issue a separate report. The Deputy Inspector General for Audit Policy and Oversight will issue an overall opinion report on the AAA internal quality control system that will include the combined results of the SAP and non-SAP audit reviews.

In performing our review, we considered the requirements of quality control standards contained in the 2007 revision of GAGAS issued by the Comptroller General of the United States. GAGAS 3.56 states:

The audit organization should obtain an external peer review sufficient in scope to provide a reasonable basis for determining whether the audit organization is complying with its quality control system in order to provide the audit organization with reasonable assurance of conforming with applicable professional standards.

We conducted this review in accordance with standards and guidelines established in the March 2009 Council of the Inspectors Generals on Integrity and Efficiency "Guide for Conducting External Peer Reviews of Audit Organizations of the Federal Offices of Inspector General," and the Quality Standards for Inspection and Evaluation. The Naval Audit Service used this guide in review of non-SAP audits at the AAA. We reviewed audit documentation, interviewed AAA auditors, and reviewed AAA internal audit policies. We reviewed the DOD OIG Report No. D-2008-6-006, "Quality Control Review of the Army Audit Agency's Special Access Program Audits" dated June 2, 2008. We performed this review from September to November at two AAA offices.

We used the following criteria to select the audits under review:

- Worked backward starting with the FY 2010 audits in order to review the most current quality assurance procedure in place.
- Avoided audits with multiple SAPs associated with the audit for ease of access.
- Avoided audits that have the same or similar titles to ensure review of multiple types of projects.

Limitations of Review

Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of noncompliance because we based our review on selective tests. There are inherent limitations in considering the potential effectiveness of any quality control system. In performing most control procedures, departures can result from

misunderstanding of instructions, mistakes of judgment, carelessness, or other human factors. Projecting any evaluation of a quality control system into the future is subject to the risk that one or more procedures may become inadequate because conditions may change or the degree of compliance with procedures may deteriorate.

Department of the Army, U.S. Army Audit Agency Comments



DEPARTMENT OF THE ARMY
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SAAG-FFZ

15 December 2011

MEMORANDUM FOR Deputy Inspector General for Policy and Oversight, Office of the Inspector General, Department of Defense, 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Quality Control Review of U.S. Army Audit Agency's Special Access Program Audits (Project Number: D2011-DIP0AI-0118.000)

1. We are providing our written response (enclosure) to the quality review report dated 5 December 2011. We concur with all the suggestions in the report.
2. We thank you and your staff for their professionalism in performing the peer review and for bringing to our attention areas in which we can improve our operations. We are especially pleased with your conclusion that our system of quality control was operating effectively to provide reasonable assurance that special access program personnel were following established policies, procedures, and applicable auditing standards.
3. If you have any questions or need additional information, please contact me at (703) 428-7222 or e-mail Elizabeth.Casciaro@us.army.mil.

FOR THE AUDITOR GENERAL:

Encl

KEVIN F. KELLY
Deputy Auditor General

**Comments on Suggestions in Quality Control Review
of U.S. Army Audit Agency's Special Access Program Audits
(Project Number: D2011-DIP0AI-0118.000)**

Overall. We are pleased with your overall conclusion that U.S. Army Audit Agency's (USAAA's) system of quality control for special access programs was operating effectively to provide reasonable assurance that personnel were following established policies, procedures, and applicable auditing standards. We also appreciate the suggested actions you provided. On 13 December 2011, the Program Director for Intelligence and Security Audits briefed the results of the peer review to the staff. The Program Director discussed your conclusions and emphasized the importance of the issues you identified in your suggested actions. The Agency's Quality Assurance Branch will also conduct post-audit reviews of selected special access program audits to verify compliance with these requirements. The following comments describe additional actions we took for each suggestion in the report.

Suggestion 1. The Program Director for Intelligence and Security Audits should remind auditors to follow USAAA guidance for preparing, reviewing, and documenting auditor independence for all auditors assigned to the audit to include audit managers.

USAAA Comments. Concur. On 7 December 2011, the Program Director sent an e-mail to all special access program personnel discussing the results of the peer review and re-emphasizing requirements of USAAA Regulation 36-3 (Audit Survey and Execution) related to the need for auditors, specialists, and independent reviewers to review and sign independence statements upon assignment to an engagement. Further, In FY 11, we established the requirement for Agency specialists (along with Program Directors and Deputy Auditors General) to prepare annual independence declaration statements and to post them online in a centralized folder.

Suggestion 2. The Program Director for Intelligence and Security Audits should remind auditors to include documentation of meetings with USAAA audit management regarding any audit planning decisions made to comply with USAAA Regulation 36-2 (Planning the Audit).

USAAA Comments. Concur. On 7 December 2011, the Program Director sent an e-mail to all special access program personnel discussing the results of the peer review and re-emphasizing the requirements of USAAA Regulation 36-2 related to the need for teams to document in working papers the decisions made at the planning decision meeting.

Suggestion 3. The Program Director for Intelligence and Security Audits should remind auditors to document results and decisions made at in-process reviews in an audit working paper or memorandum to comply with USAAA Regulation 36-3.

USAAA Comments. Concur. On 7 December 2011, the Program Director sent an e-mail to all special access program personnel discussing the results of the peer

review and re-emphasizing the requirements of USAAA Regulation 36-3 related to the need for teams to document in working papers the decisions made during in-process reviews.

Suggestion 4. The Program Director for Intelligence and Security Audits follow the USAAA quality assurance program and ensure that all sections of the quality control checklist are completed and a copy of the checklist is maintained in the audit files.

USAAA Comments. Concur. On 7 December 2011, the Program Director sent an e-mail to all special access program personnel discussing the results of the peer review and re-emphasizing requirements of USAAA Regulation 36-62 (Quality Assurance Program) related to the need for teams to complete all sections of the quality control checklist and to include a copy of the checklist in the working papers.



Inspector General Department of Defense

